



## Tax Incentives for Businesses -- Energy-Saving Upgrades in Commercial Buildings

**A business tax deduction is provided for the cost of certain “property” installed in commercial buildings in 2006 and 2007 that results in energy consumption that is less than the 2001 standard. *These tax deductions are provided by Section 1331 of the Energy Policy Act of 2005. Congress is considering new legislation (S.822 and H.R. 1385) that may extend and modify some of these deductions past 2007.***

“Property” has a specific definition in the law, but, in general, means products that are part of the interior lighting, heating, cooling, ventilation, hot water systems, or the building envelope.

### **A full tax deduction based on the *overall* energy saving performance of the building**

- A tax deduction is provided that is equal to the purchase and installation price of certain energy-efficient property or products that are installed in a commercial building, up to a maximum of: *\$1.80 multiplied by the number of square feet.*
- To be eligible to claim the income deduction, the owner must show through an approved computer model that the building, *overall*, uses 50% less energy than a reference facility set forth in ASHRAE Standard 90.1-2001, April 2, 2001.
- The energy-saving products that are considered in the computer model are: Interior lighting systems, Heating, Cooling, Ventilation, Hot Water Systems, and the Building Envelope.

### **A partial tax deduction for the installation of specific energy-saving subsystems**

- For commercial buildings that do not achieve the full deduction (above), a partial deduction is allowed that is equal to the purchase price of subsystems for the building envelope; heating and cooling; and lighting. If any of these three sub-systems is eligible for the tax deduction if it contributes to an overall energy savings of 16 and two-thirds percent. For qualified sub-systems, the deduction is the cost of the subsystem up to a maximum of *\$.60 multiplied by the number of square feet.*

- For lighting systems, a deduction can be taken if the lighting system includes the ability to switch roughly half the lights off and still have uniform light distribution, and also reduces installed lighting power. A deduction of \$.30 to \$.60 per square foot can be taken if the system achieves power reductions of 25% to 40% from lighting power values in the ASHRAE Standard.

### How Now?

- IRS Notice 2006-52 provides guidance to commercial building owners and lessees on how to qualify for the tax credit. The Notice describes the process for Certifying that the interior lighting systems, heating, cooling, ventilation, and hot water systems, or building envelope meet the energy efficiency standards.
- The Department of Energy Building Technologies Program approves software that can be used to calculate energy efficiency for purposes of certifying compliance with the energy efficiency standards. They will list approved software on their web site.
- For government buildings, the tax deduction is taken by the designer of the building instead of the government agency that owns the building.

### Take Note!

- Commercial buildings do not include residential buildings of less than 4 stories.
- Save those receipts and make sure they include the specific product information, and when and where it was purchased or installed.
- Watch Congress! Bills have been introduced that would extend the tax credits beyond 2007.

### For more information

Energy Policy Act, Section 1331	<a href="http://www.energy.sc.gov/Public%20Info/energy%20act/tax%20incentives.htm#SEC.%201331">www.energy.sc.gov/Public%20Info/energy%20act/tax%20incentives.htm#SEC.%201331</a>
IRS Notice 2006-52	<a href="http://www.irs.gov/irb/2006-26_IRB/ar11.html">www.irs.gov/irb/2006-26_IRB/ar11.html</a>
Department of Energy Building Technologies Program	<a href="http://www.eere.energy.gov/buildings/info/tax_credit_2006.html">http://www.eere.energy.gov/buildings/info/tax_credit_2006.html</a>
Commercial Building Tax Deduction Coalition	<a href="http://www.efficientbuildings.org">www.efficientbuildings.org</a>
Commercial Lighting Tax Deduction	<a href="http://www.lightingtaxdeduction.org">www.lightingtaxdeduction.org</a>
TIAP Tax Incentives Assistance Project: Commercial Buildings	<a href="http://www.energytaxincentives.org/tiap-commercial-bldgs.html">www.energytaxincentives.org/tiap-commercial-bldgs.html</a>
ASHRAE Standard 90.1-2001	<a href="http://xp20.ashrae.org/frame.asp?standards/std90.html">http://xp20.ashrae.org/frame.asp?standards/std90.html</a>

*Disclaimer: This information is not intended to provide advice on legal interpretations of the law. This information should not be relied upon in taking or refraining from taking any action related to the topics covered. The best source of information is guidance provided by the Internal Revenue Service.*